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SUBJECT: TREASURY SECRETARY GEITHNER'S NOVEMBER 10-11 TRIP
TO JAPAN

Classified By: Ambassador John V. Roos; Reasons 1.4 (B) and (D)

¶1. (C) Secretary Geithner visited Japan on November 10-11 en route to the November 12 APEC Finance Ministers meeting in Singapore. In separate meetings with Finance Minister Hirohisa Fujii, Deputy Prime Minister Naoto Kan, and Prime Minister Yukio Hatoyama, Secretary Geithner stressed the importance of a continued close U.S.-Japan economic relationship, explained the U.S. economic and financial outlook and broad policy direction, and welcomed the new Japanese Administration's focus on domestic demand-led growth.

Dinner with Finance Minister Fujii

¶2. (C) In his November 10 dinner with Finance Minister Fujii, Secretary Geithner underscored his commitment to a continued strong U.S.-Japan economic and financial relationship. He noted that the U.S. and Japan were "very close" on the most important policy issues arising from the financial crisis. He welcomed the new Japanese administration's focus on domestic demand in the broader context of a more balanced pattern of global growth. Secretary Geithner also spoke of his personal experience in Japan, noting that he spent much of his early professional career working on Japan-related issues as a civil servant in the Treasury Department, including as Assistant Financial Attache in the Embassy from 1990-92. Secretary Geithner explained that the U.S. economy is now stronger, and the financial system more stable, but unemployment is still high and that the recovery would require continued policy support. He said that he was aware that the financial crisis had increased concern, and even to some extent resentment, in other countries with respect to the United States. However, he emphasized that U.S. authorities would be good financial stewards over the economy and the currency.

¶3. (C) Fujii strongly agreed that the U.S. and Japan held broadly similar views on the major policy issues coming out of the financial crisis, and looked forward to a close, productive working relationship with Secretary Geithner. Fujii thought that the Obama Administration had been doing a "very good job" on economic policy, particularly in ending the recession and bringing stability to the financial sector. Fujii added he was very pleased to be able to say that Secretary Geithner agreed with his focus on increasing domestic demand-led growth in Japan. Fujii said that the change of administration in Japan had left the Japanese people feeling "refreshed", but the Democratic Party of Japan (DPJ) now felt a heavy responsibility to implement policies that meet the electorate's expectations. The Ministry of Finance, in safeguarding the budget, has to play an unpopular

role in this process. In this context, Ambassador Roos warmly welcomed Prime Minister Hatoyama's pledge of \$5 billion in aid to Afghanistan.

Breakfast with Deputy Prime Minister Kan

14. (C) In a November 11 breakfast hosted by the Ambassador with Deputy Prime Minister and Minister for the National Policy Unit Kan, Secretary Geithner again stressed that the United States valued its economic relationship with Japan, and hoped to remain as close to Japan as possible. While the two countries would never agree on everything, they were very close on the "big questions." Secretary Geithner added the United States seeks to remain very engaged in Asia, and while it is a good thing for U.S. and Japanese firms to compete in Asia, it would be a bad thing if the U.S. and Japanese governments were to compete for influence in Asia. He reassured Kan that, even though the United States would spend a lot of time with China to ease that country's integration into the broader multilateral economic framework, it would not come at Japan's expense.

15. (C) Kan replied that Japan welcomed stronger U.S.-Chinese ties, and that it is very good for the United States to have warm relations with Asia. He added that Prime Minister Hatoyama's proposal for an East Asian Community "might have caused concern." The proposal, Kan said, is based on the observation that the political relationship between Japan and Asian countries is "not mature politically," and greater

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stability is desirable.

16. (C) Kan then turned to energy policy, explaining that Prime Minister Hatoyama's target of a 25% reduction in greenhouse gas emissions from 1990 levels by 2020 would be a means to raise both domestic demand and innovation in Japan. He saw considerable potential in solar energy, thought biomass was workable in Japan if it was paired with sufficient reforestation, judged Europe to have overtaken the United States in wind power, and observed that greater use of nuclear energy in Japan was hampered by the difficulty of local citizens to accept nuclear waste disposal. Kan added that he had been advocating within the Cabinet to look at emissions on an annual ton per capita basis, where the U.S. currently emits 20, Japan and Germany 10, China four, and India one. Kan thought the global average should be two. When asked by Secretary Geithner whether he thought that was achievable, Kan joked yes -- "we just have to go back to our lifestyles of 200 years ago." Kan also noted that the Hatoyama Administration was not planning to propose any changes to Japan's immigration policies, but instead planned to better utilize women and the elderly to support the workforce.

17. (C) Kan asked in closing for the United States to have patience with the DPJ, as the DPJ was "trying to drive a big car for the first time." In time, he said, the DPJ would become an "able driver."

Courtesy Call on Prime Minister Hatoyama

18. (C) Prime Minister Hatoyama welcomed Secretary Geithner by noting that "nobody understands better the importance of Japan than you." Hatoyama explained that Japan still needs fiscal stimulus and it was too early to discuss an exit strategy. However, given the weight of government debt, it was critical to eliminate wasteful spending. Hatoyama added that Japanese domestic demand had been too weak before the crisis and needed to increase going forward.

19. (C) Secretary Geithner replied that it was a privilege to

return to Japan, that he admired the Prime Minister's reform agenda, and that the President very much looked forward to seeing the Prime Minister later in the week. Secretary Geithner said that he realized the financial crisis had caused damage to many countries. The United States, and the President in particular, are very committed to fix what was broken. However, the United States could not do it alone, and Secretary Geithner stressed that he wanted to work with Japan and others very closely.

¶10. (U) This cable has been cleared by Secretary Geithner's delegation.

ROOS